



One Step Forward

A Study of the Economic Impact of OSC Rule 45-501 Exempt Distributions

Report to the Honourable Janet Ecker, Minister of Finance

Ontario Securities Commission

November, 2002

Impact Study	OSC Rule 45-501 Exempt Distributions
Sponsor	Ontario Securities Commission - Corporate Finance
From	Office of the Chief Economist
Issue	The Task Force on Small Business Financing (1994) recommended a change in exempt market regulation from a minimum investment to an investor approval test. The provincial government's goal was to improve access to capital for SMEs (small and medium-sized enterprises) and promote economic development. Some stakeholders (issuers, investors, advisers) perceived that the established regime was inadequate and unduly restrictive.
Action Taken	Regulation of prospectus-exempt market was revised, implementing many of the Task Force's recommendations. Deliver study to Ministry of Finance, examining the impact of new rule after having been in effect for one year.
Stakeholders	Regulators, issuers, investors, advisers, provincial government
Structure of Study	A. Executive Summary B. Methodology C. Constraining Factors D. Impact Analysis E. Factors to be Considered F. Issues to be Addressed G. Conclusion Appendix H. Data Analysis: Market Conditions I. Data Analysis: General Characteristics J. Data Analysis: Most Frequently Used Issue Sizes K. Data Analysis: Distribution of Size Frequency Table K-1: Distribution of Size Frequency (Pre-revision vs. Post-revision) L. Data Analysis: Number of Investors per Transaction Table L-1: Number of Investors per Transaction (Pre-revision vs. Post-revision) M. Data Analysis: Rounds of Financing per Issuer Table L-1: Rounds of Financing per Issuer (Pre-revision vs. Post-revision) N. Data Sample: Total Value of Financings vs. Total Number of Financings Graphs Graph H-1: Market Conditions (Total Value) Graph K-1a: Distribution of Size Frequency (Number of Transactions) Graph K-1b: Distribution of Size Frequency (Total Value) Graph K-2a: Distribution of Size Frequency (Total Value < \$500,000) Graph K-2b: Distribution of Size Frequency (Total Value ≥ \$500,000) Graph L-1a: Number of Investors per Transaction (Number of Transactions) Graph L-1b: Number of Investors per Transaction (Total Value) Graph M-1a: Rounds of Financing per Issuer (Number of Transactions) Graph M-1b: Rounds of Financing per Issuer (Total Value)



A. Executive Summary

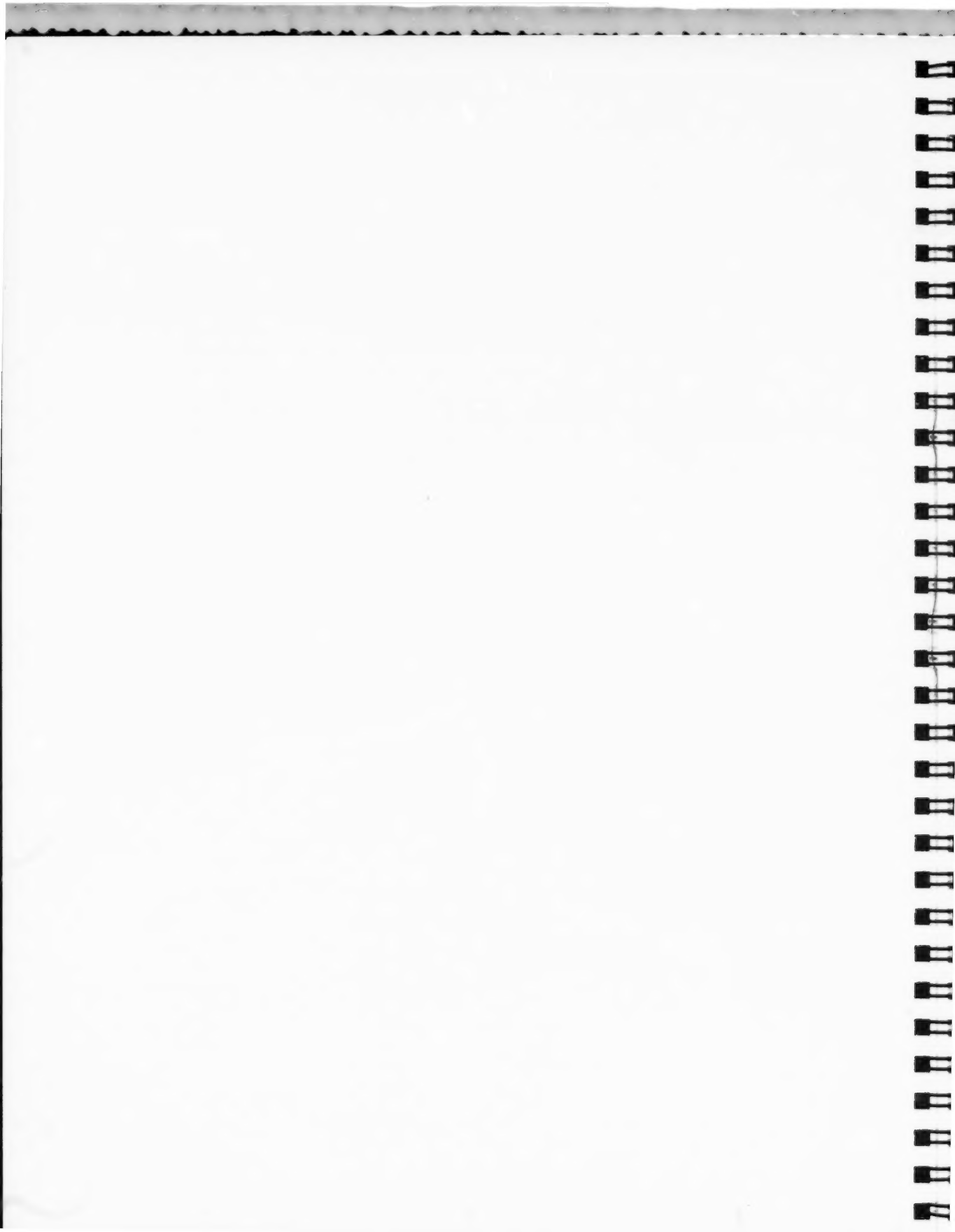
This study examines the impact of the revision of Rule 45-501, coming into force on Nov. 30, 2001. For this analysis, data was collected for a period prior to the revision (1995-1998) and for the period after the revision (2001-2002). The objective of the study was to determine if the revision had facilitated investment via the prospectus-exempt market. There will not be any data analysis of closely held issuers, since they are exempt from any filing requirements.

The rule revision included the replacement of previous investor restrictions with new criteria for accredited investors that would serve as proxies for the "sophistication" of an investor or the means to tolerate the potential risks of investing in a non-prospectus environment.

The goal of the new rule was to have a positive impact on this regime. The magnitude of the post-revision results has been shown to clearly exceed the activity and total value of transactions of the previous period. The results have demonstrated that:

- Total trading activity has increased,
- Average size of transactions has increased,
- The range of transaction sizes have broadened (there are more small and large transactions),
- Almost half of the transactions are valued at \$150,000 and below,
- The overall size of the prospectus-exempt market has grown.

The possibility exists that other factors have contributed to the growth in this market. However, given the contraction in overall capital markets' issuance, particularly in areas of higher risk, the results suggest that the rule change was the most significant contributor to performance.



B. Methodology

Analysis

The analysis was based on a dissection of the different data elements available from the submitted forms (Form 45-501F1). Usable data elements included number of investors, issuer name, security type, trade date, and transaction size.

From the available data, the objective was to create a snapshot of the activity in the prospectus-exempt market. Comparing previous versus present performance and contrasting the activity with respect to market influences was the approach taken for examining the exempt market. The elements examined are described in the following table:

Overall market activity	Is the impact of the rule revision noticeable? Has trading increased period to period? Year to year? Has this revision helped or hindered?
Trade distribution	What are the sizes of these trades? Are there only large deals? Only small ones? What issue size is most frequently used? What issue size accounts for the most value? Have the revisions given more issuers entry-level access or is it only the realm of the well-capitalized issuer?
Issuer distribution	What are the issuers doing? Are they going to market more often? Have they embraced these changes? Are there any abnormal trade patterns?
Investor distribution	What are the buyers doing? How widely distributed are these investments? Are the syndicates for these deals growing? Is there an increased appetite for these deals?
Composition	What exemptions are being relied upon? Are fund companies responsible for all this activity?
Market conditions	Are interest rates helping the cause? Does a downturn in the markets hurt exempt investment? Does a bull market hurt exempt investment?

Data Collection

Starting in March 2002, OSC staff designed a database for this impact study, and populated it using hard copies of Form 20 and 45-501F1 submissions. For purposes of this analysis, the data included submissions made up to Oct 2002. The data consisted of two periods: Jan 1995-Dec 1998 (4 years) and Dec 2001-Oct 2002 (11 months). The reason for the data gap is explained in Constraining Factors.

Every transaction continues to be manually entered into the database from forms submitted to the Commission. The database also provides the benefit of maintaining the transparency of these transactions. The information captured is published in the OSC Bulletin to inform the public of these transactions. The data will be available for future analysis, should additional research be desired.

All entries were validated and checked for logical errors. The data universe contains 8989 transactions. The data used for this study contains 8679 transactions. Substantial effort was necessary in making this universe homogeneous, to aid in comparability. The difficulty lies in the open formatting of the responses. There are no restrictions on the content that is submitted on the forms, creating uncertainty and complicating the reporting process for the users. This can lead to problematic situations such as the creation of multiple categories for the same item (e.g. common shares, common stock, common equities). This administrative burden is examined in Issues to be Addressed.

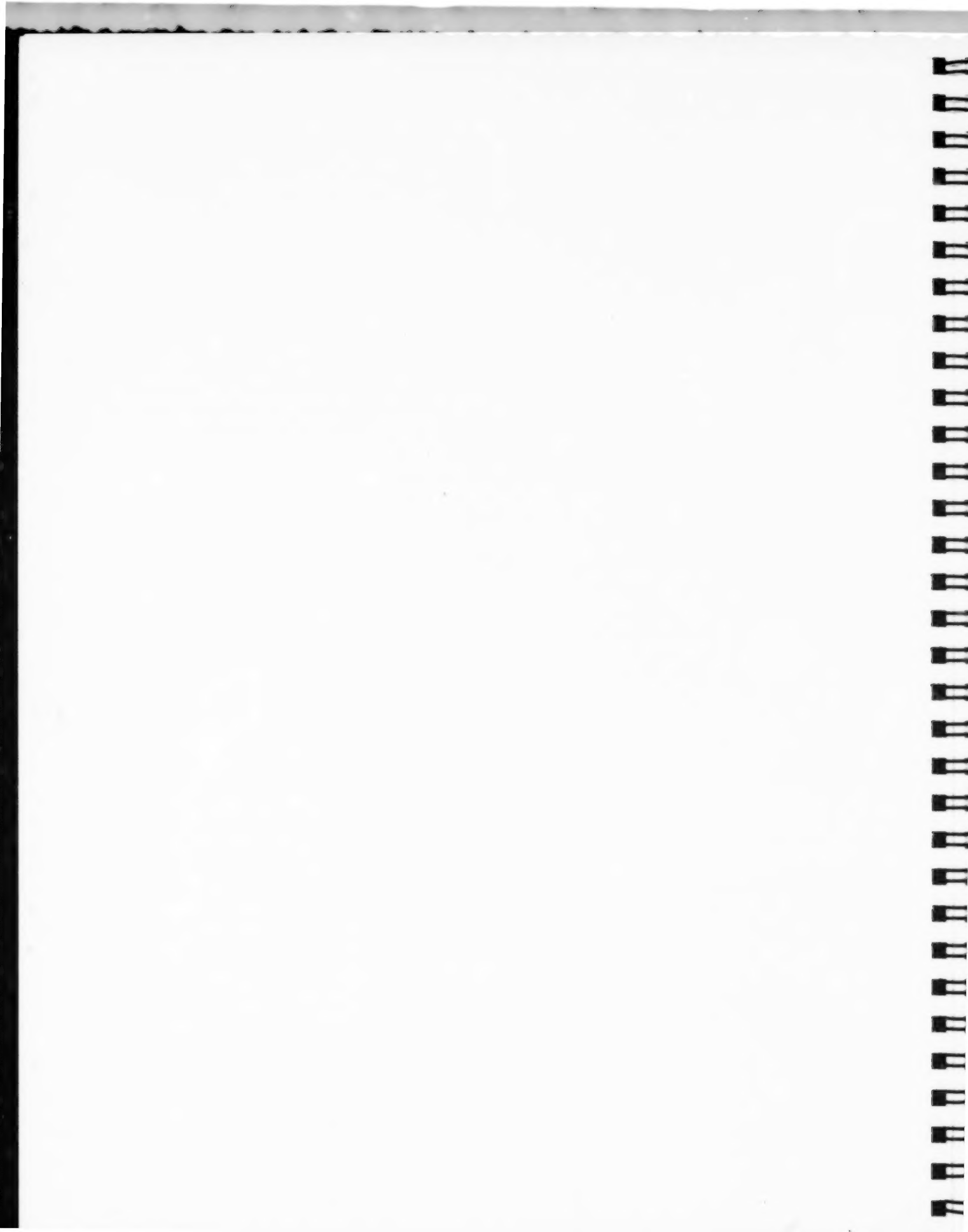
C. Constraining Factors

Data Sample	It is assumed that all filings are in compliance with the rules governing these transactions. The present data's short time horizon increases the difficulty in examining the long-term impact of rule revision. The non-continuous data sample restricts the ability to observe the period leading up to the revision. Analysis was done on an absolute basis (comparing period to period) and on a relative basis (comparing to market conditions) to facilitate the two periods' comparability.
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There exists a break in the data between Jan 1999-Nov 2001. The implementation of the original rule (on Dec. 1998) required only limited disclosure on the form used during that period, restricting the submission's usefulness. The pre-revision period is comprised of four years. The present period has a span of only eleven months. The underlying market conditions deteriorated between these two periods, therefore potentially influencing the results. This issue is addressed in Factors to be Considered.

Accredited Investor exemption	The accredited investor exemption will be the focus of this analysis, since useful data is available only from this set of submissions.
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This study uses only data available from 45-501F1 submissions. Only 45-501F1 submissions contained sufficient detail to facilitate the analysis. Other forms submitted under this rule are used for publication purposes, but contain little meaningful detail to enable any detailed analysis. Transactions under the closely held exemption do not require any filings.



Total impact of rule revision	Total trade impact of rule revision is unknown, due to non-reporting of transactions relying on the closely held issuer exemption. Creating the Small Business Advisory Committee is a step towards receiving feedback from this issuer community.
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The closely held issuer exemption was intended to benefit small or medium-sized enterprises. No information is filed on transactions made in reliance on this exemption in the past or the present. The possibility exists that an issuer of any size may use both this exemption or similar exemptions and the Accredited Investor exemption simultaneously, given that their investors can satisfy the respective conditions.

D. Impact Analysis

An examination of the eleven-month post-revision period's results has demonstrated that there has been a substantial increase in the exempt market's activity over the previously observed four-year period. The strength of the eleven-month figures when compared against the four-year totals points to a resounding endorsement of the new framework. Issuers are seeking more financing and seeking it more often. Overall, investors are willing to invest more. The volume of activity has multiplied. The distribution of transactions is dispersed over a wider range, with the majority of transactions having shifted down to smaller sizes. The increased activity has also attracted an increased number of larger issuances.

Highlight: More activity	The present period's total trade activity is greater than under the previous rule. The number and the total value of the transactions have increased. The variety of transaction sizes has also expanded.
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(Refer to Appendix N)

The universe under observation is the four-year pre-revision period from 1995-1998 and the eleven-month post-revision period. The data sample is organized by chronological frequency (annual, quarterly, monthly). Regardless of the data frequency chosen, the data clearly demonstrate the increased activity of the most recent period, in terms of quantity and value of transactions. There exists a seasonal uptick pattern in issues in Q4 that can be attributed to year-end considerations (e.g. tax-related concerns).

(Refer to Appendix I)

The following statistics also indicate that the present period's activity has definitively surpassed the pre-revision period:

- The total number of investors in the eleven-month period (14,064) is slightly less than the four-year period (17,411)
- The average number of transactions per quarter has more than doubled, up from 322 to 706.
- The average quarterly total value of transactions is 2.7 times larger. (\$1.55B to \$4.17B)
- Maximum rounds of financing by a single issuer rose from 51 to 350.
- Maximum number of investors participating in a single transaction increased from 388 to 502 investors.



(Refer to Appendix K)

The distribution of transactions has shifted from issuing at the mid-range of transaction sizes, to the smaller and larger transaction sizes.

- Instead of clustering around the mid-range of transactions (\$500,000 to \$5M), the transactions are more evenly spread out, across a wider range.

The overall performance of financial markets may be an external factor that might influence these outcomes. **Factors to be considered** will examine the following market related influences:

- Overall performance of financial markets
- Overall corporate issuance activity

Highlight: More smaller deals	The number of small transactions has increased. Investors and issuers have expanded access to smaller amounts than previously available and are making use of this access.
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There has been a significant impact on the size of financings with the removal of the minimum investment requirement of \$150,000.

(Refer to Appendix J)

- In the pre-revision period, the five most frequent transaction sizes ranged from \$150,000 to \$500,000, with the most frequent transaction size being \$150,000 with 257 transactions at that level.
- Presently, the five most frequent transaction sizes range from \$1500 to \$150,000, with the most frequent transaction size now at \$3000 with 151 transactions.

(Refer to Appendix I)

- The median transaction size has dropped 52% from \$522,447 to \$250,000, indicating that half of the transactions in the present universe are at this level and below.
- The median investment size per individual has decreased 60% from \$300,000 to \$120,000, indicating that half of the investments are at this level and below.

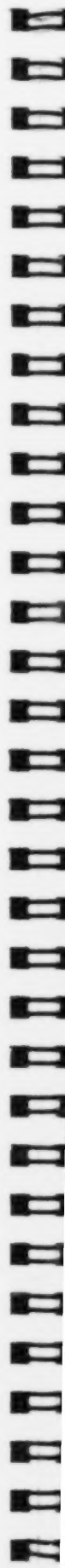
(Refer to Appendix K)

- The number of deals of the smallest size (< \$150,000) has significantly increased, from 946 to 1415.

(Refer to Appendix L)

- More deals involving 50-99 investors are being transacted (from 11 to 17), but the average transaction size is smaller.

Highlight: More larger deals	The number of large transactions has increased. Issuers are finding more investors who can invest at all levels. Large issuers are issuing more and large investors are investing more. The number of one-time issuers and very frequent issuers (greater than 50 rounds of financing per period) has increased and are issuing larger blocks than previously.
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(Refer to Appendix I)

- An investor's average investment in the exempt market has increased by 24%. (\$2.8M to \$3.5M)
- The average transaction size is up from \$4.8M to \$5.8M.
- The largest investment by a single investor rose 26%, from \$500M to \$630.7M.
- The largest single transaction grew almost 4 times, up from \$500M to \$1.98B.

(Refer to Appendix K)

- Combining the 3 largest transaction size categories (<500M, <1B, ≥1B), the absolute quantity of transactions has grown from 43 to 52 and the total value of financing has increased from \$7.9M to \$10.8M.

(Refer to Appendix L)

- The total value of transactions remained largest for deals with only a single investor (from \$12.2B to \$11B).
- Compared to the pre-revision period, deals involving 10-19 investors have declined (from 277 to 197), but they have become larger in value (\$1.9B to \$4.2B).
- The issue sizes for deals distributed to more than 100 investors have grown (from \$4.4M to \$360.4M).

(Refer to Appendix M)

- One-time issuers account for a greater portion of the total value of transactions for the present period (from \$7.4B to \$11B).
- The total value of very frequent issuers (greater than 50 rounds of financing per period) rose from \$1.8M to \$29.5M, with the number of issuers growing (from 1 to 3).

Highlight: Exemption is being used	Grouping the submissions by exemption used, the largest group of transactions relied on the Accredited Investor exemption. The next largest exemption grouping of the transactions relied on the exemption designated for mutual funds and non-redeemable investment funds.
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The exemption with the most submissions was filed under 45-501-2.3, the Accredited Investor Exemption (trades: 3046, value: \$17.06B). The next largest group was filed under 45-501-2.12, the exemption for mutual funds or non-redeemable funds (trades: 272, value: \$2.98B). There are no other sizeable groupings of exemption use.

E. Factors To Be Considered

There may be events or influences beyond the revision of the rule that may also have an impact on the performance of the prospectus-exempt market. Explored below are factors that may have had an effect on the results that were gathered.

Is it possible that the volume of trades reported is a result of greater compliance? Have the filing requirements become more attractive?



It is possible that when the previous minimum investment requirements existed, reporting of trades below the minimums was not possible, since these trades were prohibited. The effect of lifting these minimums may result in increased reporting.

As in the past, there exists a fee component when submitting a form, a cost that would not be incurred needlessly. The fee structure has remained the same in the revised regime, so that there is no increased financial incentive to file now, i.e. it has not become less costly to submit filings. Administratively, there is a cost in becoming familiar with the new requirements of the form. In addition to the changes to the rule, the present submission requires more detail to be given than the past period covering the years 1999-2001.

Given the existing costs and the increased reporting requirements, there does not appear to be a strong motivation for the users to increase transaction reporting to the regulators.

Is there a risk that certain transactions may influence the results?

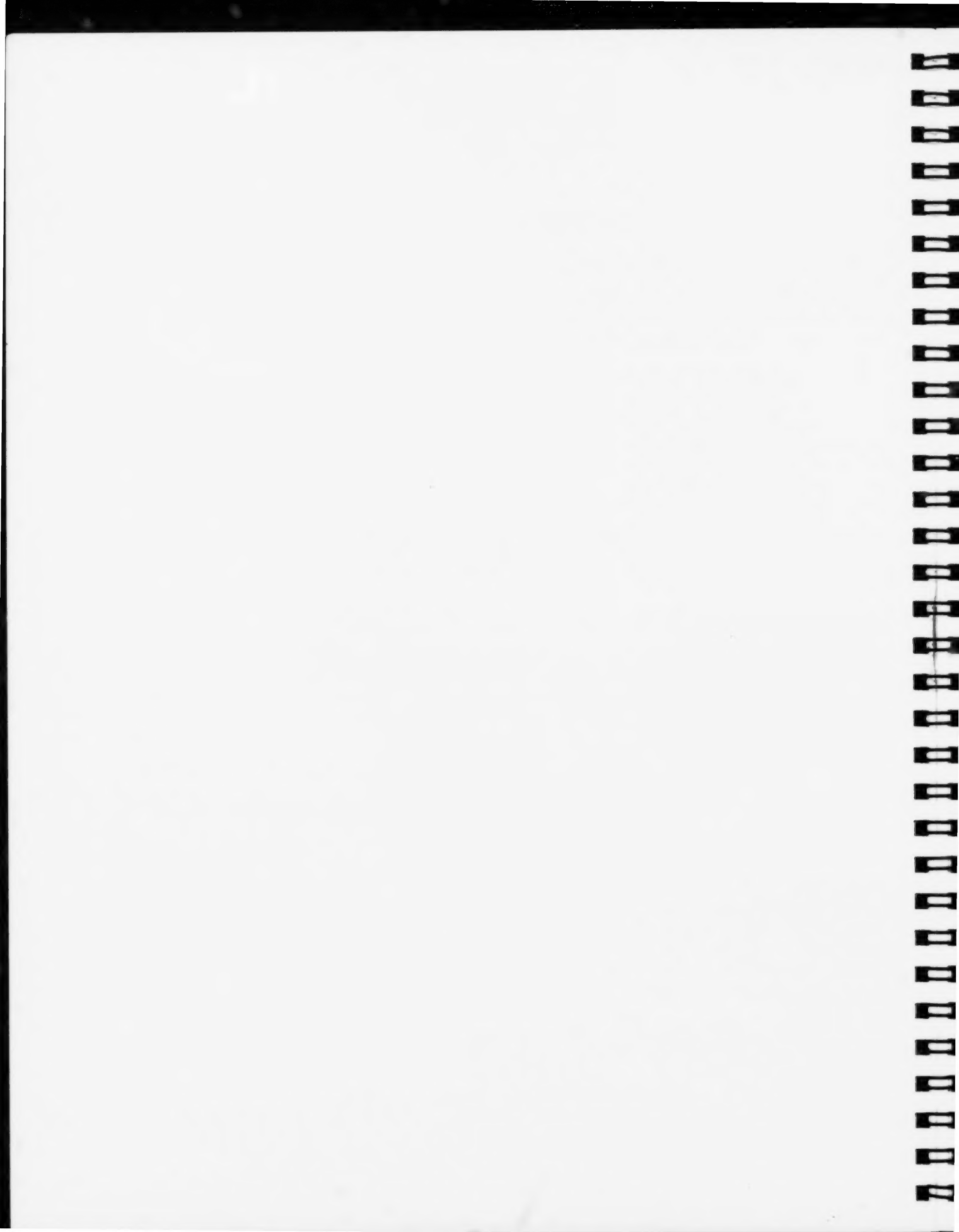
Abnormal trading patterns

The first distorting factor could be transactions submitted as a result of improper compliance with the associated rules. Categorized as technical violations (e.g. distributing securities to investors who are in fact not an Accredited Investor), these transactions may have the effect of overstating the results.

The second factor is submitting a form for each investor for a small transaction size (e.g. \$1000 or \$3000). The practice of reporting many small transactions to many investors, instead of a single aggregated transaction with many investors, would overstate the activity due to the over-reporting of transactions. The high frequency issuing of small sizes would skew the distribution and averages downward, altering the trade distribution. To account for this potential discrepancy, the number of investors for each deal was captured, permitting a transaction to be viewed by the average investment per investor, to control for this effect on the data.

Although the transactions might be in compliance with the governing rules, this behavior has been associated with the unethical business practices of some issuers (e.g. boiler rooms). It is difficult to ascertain whether this period has become more conducive to greater marketing/promoting or increased fraudulent practices than in other periods, resulting in increased submissions. Enforcement statistics are also confronted with a similar dilemma, whether or not there is increased activity or increased reporting. Beyond observing the increased level of activity or reporting, the goal of examining individual transaction characteristics is to identify and confirm whether the structure of the market's activity has changed (e.g. more small transactions, less large transactions, etc.). Not only is there increased overall activity, the results have demonstrated that individual investors have expanded into a broader range of investments.

Presently, there are only three securities that are suspect; Case Assessment is investigating two issuers/promoters, the third has proceeded to a hearing. Only a single issuer had distributed frequently in small amounts. Hedge funds and income trusts constituted the majority of the very frequent issuers and the transactions that were distributed to many investors (which is addressed



below). Having examined the effect of the suspect transactions on the total post-revision sample, the resulting impact was negligible.

Investment Funds and Income Trusts

The recent popularity of non-redeemable investment funds and income trusts has translated into increased business activity for these entities. The activity includes distributions to individual investors and transactions between the asset managers. By the sheer size of the buy-side's transactions in any market when compared to other issuers and investors, their influence should be examined, since they may impact the composition of the data.

After examining our universe, transactions originating from this group of companies were numerous, but did not constitute the majority of overall transactions. Fund-related transactions accounted for 808 transactions, valued at \$6.17B. These transactions accounted for a quarter of the volume and value of the post-revision period. Excluding and including transactions originating from funds and trusts did not noticeably affect the majority of statistics. The only noticeable change was a decrease in the maximums for transaction size and investment per investor. Given the dispersion of transactions in this subset, the associated transactions were not clustered in any specific area to create a significant distortive effect.

The potentially distortive effects of abnormal unethical trading practices and increased buy-side activity were identified and examined. The impact of these factors did not distort the study's data or alter its findings.

Is there a possibility that market conditions may influence the results?

Corporate issuance and market performance

(Refer to Appendix H)

An issuer's decision on seeking financing is influenced by their natural inclination to seek financing at the lowest cost (of prime importance for large issuers) versus the desire to find the most available financing (of prime importance for small issuers). Overall market performance has an implication on the available capacity of issuances to be absorbed by investors. As the financial markets perform well, investors will maintain their demand for investment opportunities. The riskier nature (illiquid and reduced protection) inherent in the prospectus-exempt market makes these vehicles the first to be vulnerable in market downturns and the last to benefit from upturns.

For larger issuers, the marketing and transaction costs associated with "going public" and seeking additional (secondary) funding from the corporate sector, and the potential time delay associated with the prospectus process can be avoided in the prospectus-exempt market. Exempt financing can provide larger issuers with a substitute venue to traditional public corporate issuance, but only under stable market conditions.

For smaller issuers confronted by a steep tightening in the corporate issuance market and decreasing access to financing, the recent decline in the financial markets would be expected to cause their activity levels in the prospectus-exempt market to decline substantially. In other



words, confronted with the source of the financial wells drying up, the well available to smaller issuers would be expected for to dry up as fast, if not faster, than the main markets.

For the period spanning 2001-2002, corporate issues drastically fell, hitting similar levels to 1995-1996. Note that Q3 2002 was the first time since Q1 1995 that corporate bonds were not net issuers. As well, the asset class of venture capital, which closely resembles the qualities of prospectus-exempt financing, experienced a substantial drop in available capital. This overall decline, indicative of the severe contraction of funding available for these investments, was not transmitted to exempt financing. The actual result was the growth of prospectus-exempt financings to unprecedented levels, as corporate issuance and overall markets contracted. Although faced with difficult market conditions, the data has indicated that prospectus-exempt financing has grown beyond the capacity that was previously possible and should continue to do so.

The recent market conditions have been so severe, that it would have been expected to have infected all sources and venues for financing, eliminating any potential safe havens for seeking capital. Given this challenging environment, it was remarkable to observe the unprecedented strength of the prospectus-exempt regime, providing supporting evidence that the new rule has contributed to this outcome.

The increased activity of larger issuers can be attributed to their goal of minimizing financing costs, made more accessible by the rule revision. The impact on the smaller issuers has been a result of the new rule's removal of minimum investment restrictions.

F. Issues To Be Addressed

For this market, where should the balance fall between protection and market efficiency?

The premise for the prospectus-exempt regime is to reduce the regulatory burden surrounding issuance of securities, under certain conditions. The investor should be aware of the risk associated with the limited protection or recourse available to the investor in a non-prospectus environment versus the benefits derived from an issuer's ability to issue under reduced regulatory requirements (i.e. transaction details are reported post-trade). The added wrinkle in this "Accredited Investor" regime is that the investor is required to be judged "sophisticated" and willing to invest where there is no prospectus. The establishment of a "means test" or financial thresholds is a mechanism to screen the investor's risk tolerance against their financial suitability to risk their assets.

As with other activities covered by the Securities Act, unfair and fraudulent conduct is possible. The means to detect and enforce against this behavior in this regime is the same as in any other regime. The difficulty exists in determining the level of protection necessary for this regime, given the degree of self-selection required to participate.

Are there aspects of the new rule that have become overly restrictive?

Closely held issuer

Since this group of issuers has been exempt from any filings, no data has been collected on these transactions to enable any economic analysis. In place of this analysis, consultations have commenced with representatives of this community. The Small Business Advisory Committee will serve as a forum for this dialogue. The goal is to respond to their concerns and to work towards developing suggestions that would enable further improvements. This work would contribute to the basis for future amendments.

Accredited Investor

During the initial comment period in 1999, many commentators were concerned with the derivation of the thresholds in forming the Accredited Investor category. They commented that the thresholds for net income or net assets had become overly restrictive, creating a barrier to entry to the investors who could benefit most from this access. The long-term impact cannot be determined at this point. Presently, the results do indicate that a transition towards smaller transactions for the majority of trades has begun to take place.

How can the administrative burden of this process be reduced?

The present forms have required more detail. Although the type of information submitted on the forms has not changed greatly from previous forms, the composition of the filers may have changed due to the rule revision. The population base of new exemption users may have expanded. Increased use by the uninitiated presents difficulties in making use of the information on these submissions. The present processing of these transactions is complicated by the fact that beyond the section headings on the form, there is no consistency in the information being received or required. This complication affects the accuracy of the transaction details being disseminated for public consumption and the ability to extract greater detail from this data.

Although a year has passed, providing continued education to assist filers with their familiarization of the rule and giving guidance on the filing requirements would provide a solid foundation in resolving this situation. Further decreasing the administrative burden and streamlining this process could be achieved by standardizing the inputted content, via a web-based form. This electronic process would immediately create a more accurate and homogenous data set. The administrative effort would be reduced for issuers and regulators. The issuer would benefit from the reduction in uncertainty and effort in trade reporting, and possibly aiding in compliance. The regulator's effort in recording these transactions could be reallocated to ensuring quality control of these submissions.

G. Conclusion

It has been one year since Rule 45-501 has been revised. The goal was to lift some of the restrictions of the previous rule. It was expected to generate a positive impact. The initial look at what has transpired in the prospectus-exempt market during that time indicates that it has been undeniably positive. The analysis of the collected data has provided support to the contribution that has been made by this revision. The motivation for this revision was the concerns that originated from the 1994 Task Force Report. The revision was meant to address the restrictive elements of the previous framework and promote efficient capital formation.

“\$150,000” Exemption

One restrictive element that was removed concerned the “\$150,000” exemption. The monetary threshold was used as a screening mechanism to allow entry into this investment arena. The results show that there has been a significant impact at this range of investment. The ability to invest at these levels has not gone unnoticed. The present capital inflows of this transaction size overshadow the activity of the previous period from 1995-1998. Access to these investments has been made available to a broader investor base.

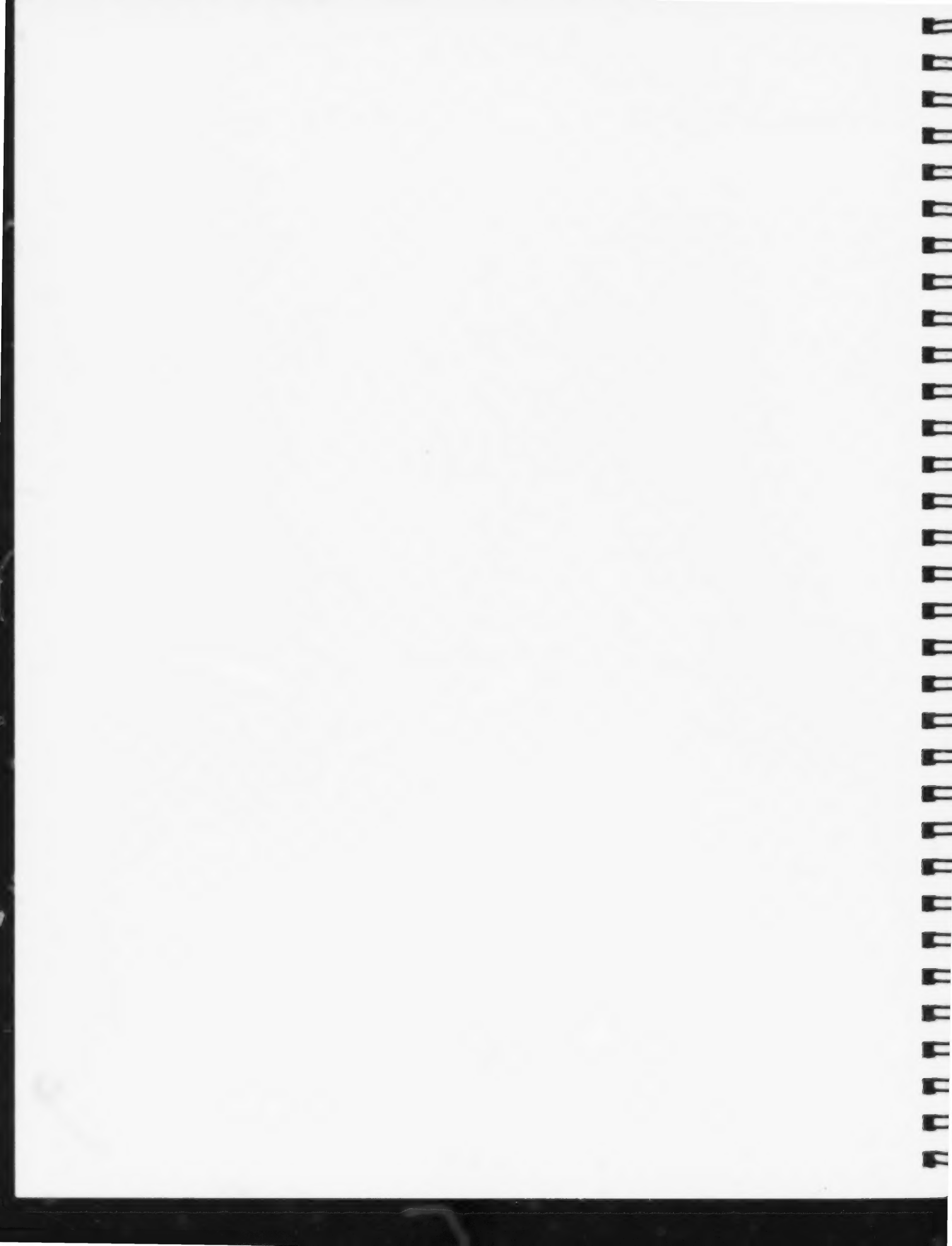
The additional benefit of removing the minimum investment requirement is the reduction of risk to the investor. An investor's risk was increased under the previous framework because a minimum investment was required for these illiquid securities with decreased protection, regardless of the investor's risk tolerance. Investors can now benefit from not being forced to be over-weighted in these securities and have the facility to diversify their risk across several prospectus-exempt securities, if so desired.

Promote Efficient Capital Formation

By all indications, prospectus-exempt financings have solidly grown, indicating an acceptance of the new framework. In the face of an overall contraction in the markets, the new rule appears to have taken a step in the right direction. Across the board, gains in exempt financing may be explained by the structural change caused by the revision. The recent growth in the number of transactions and its associated value greatly exceeded the levels of the years in the previous period, despite the severe market influences that should have resulted in an overall contraction.

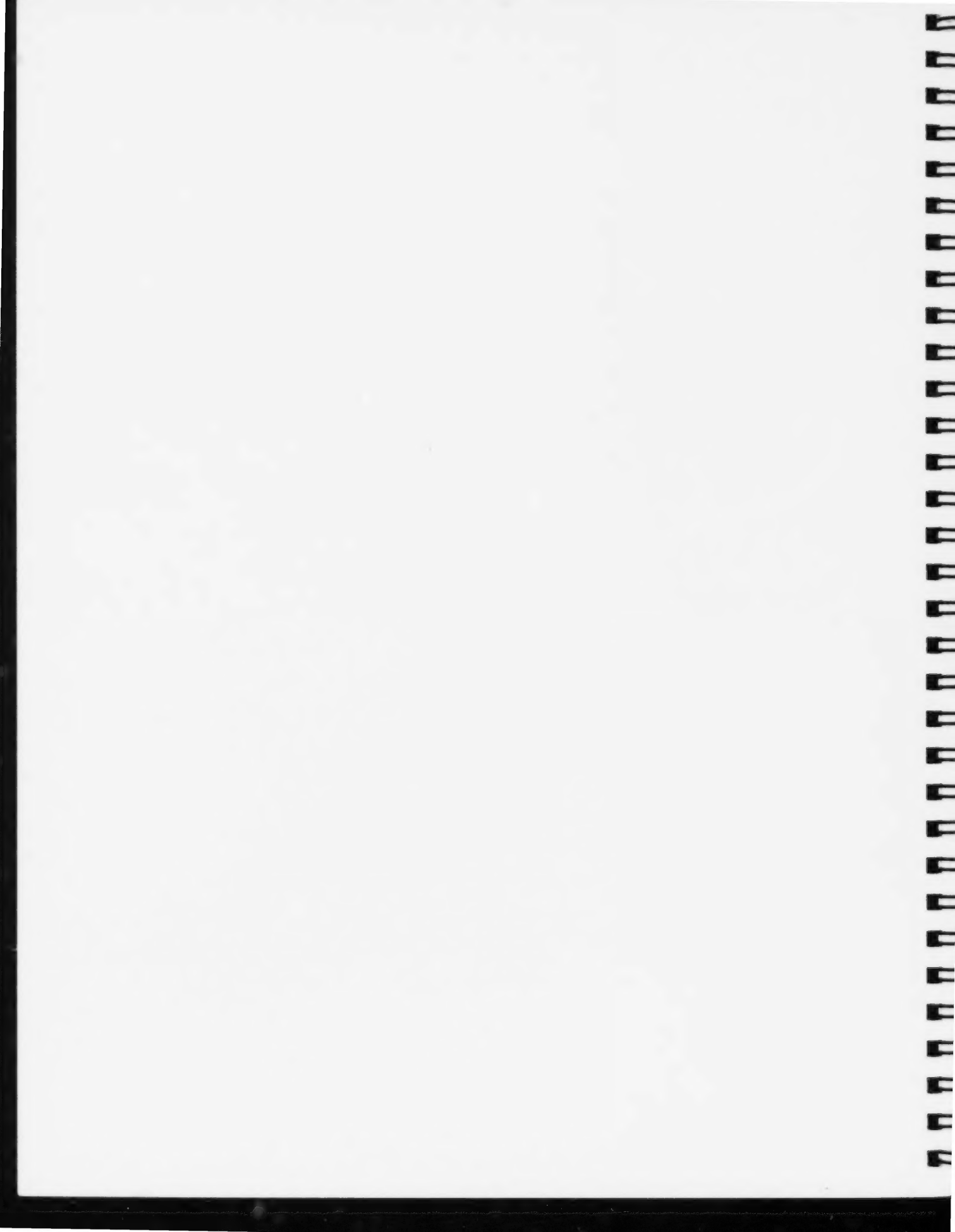
Facilitating SME Capital Formation

A targeted stakeholder of the Task Force was SMEs. The reworking of the closely held exemption was meant to address the previous restrictive interpretations of the exemption. In an attempt to curb previous abuses, the present reformulation of the closely held exemption has introduced different restrictions to this provision. Although the changes were expected to have a negative impact, there is a lack of detail regarding closely held activity, therefore making it difficult to determine the net outcome of the revision in this area. Further study of this area would be needed to ensure one of the main objectives of the Task Force was reached.



One Step Forward

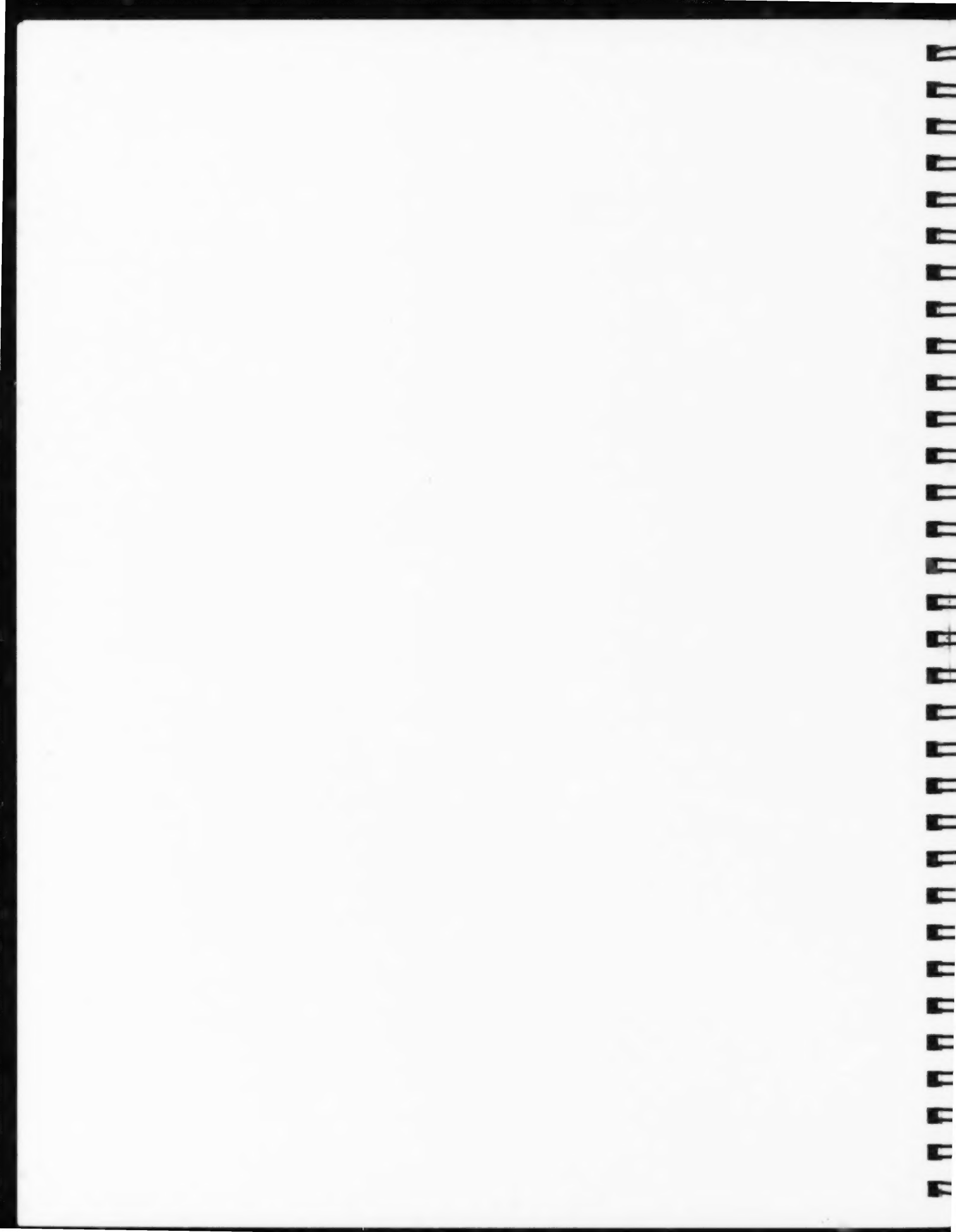
It is evident that as a result of this effort, positive gains have been made in promoting the efficiency of capital formation under this regime. After having observed this new framework in action for one year, further improvements in this framework and its processes have been identified and should be considered. As noted, there are restrictive elements in the present framework that should be slated for change. There are processes that can be streamlined for the benefit of all users of this information. The analysis has provided a map of where this project has come from and can guide it to the next step in its journey.



H. Data Analysis: Market Conditions

The table compares corporate new issuance to transactions under 45-501. For the purpose of this comparison, corporate new issues are comprised of net new issues of corporate bonds, common stocks and preferred shares.

Quarterly	Prospectus-Financing (\$)	Prospectus-Exempt (\$)
1995 Q1	1,203,000,000	985,420,893
1995 Q2	5,084,000,000	680,619,459
1995 Q3	4,857,000,000	986,696,481
1995 Q4	3,375,000,000	1,651,001,452
1996 Q1	4,245,000,000	1,093,511,289
1996 Q2	7,003,000,000	2,177,562,027
1996 Q3	2,525,000,000	1,141,081,581
1996 Q4	12,120,000,000	1,725,894,095
1997 Q1	9,649,000,000	2,333,391,292
1997 Q2	6,935,000,000	2,003,722,348
1997 Q3	10,622,000,000	2,451,757,887
1997 Q4	12,003,000,000	3,090,883,224
1998 Q1	7,616,000,000	1,226,056,950
1998 Q2	10,605,000,000	2,308,056,480
1998 Q3	5,544,000,000	374,690,164
1998 Q4	3,433,000,000	573,697,119
2001 Q4	11,920,000,000	4,176,440,100
2002 Q1	5,924,000,000	4,645,490,327
2002 Q2	7,061,000,000	5,685,803,572
2002 Q3	3,377,000,000	5,113,488,973



I. Data Analysis: General Characteristics

The first period covers Jan 1995-Dec 1998. The second period covers Dec 2001-Oct 2002.

Note: Rounds of Financing for Issuer represents the total number of deals submitted by one issuer for that period. # Investors per Transaction represents the number of investors participating in one transaction.

Table I-1: General Characteristics

	1995-1998	2001-2002
Issuers (#)	2,368	1,600
Investors (#)	17,411	14,064
Transactions (#)	5,151	3,528
Value (\$)	24,804,042,741	20,970,564,052
Transaction Volume: Quarterly Avg (\$)	1,550,252,671	4,165,102,154
Transaction Volume: Quarterly Avg (#)	322	706
Investment per Investor: Median (\$)	300,000	120,000
Investment per Investor: Avg (\$)	2,838,549	3,517,156
Investment per Investor: Max (\$)	500,000,000	630,680,000
Issue Size: Median (\$)	522,447	250,000
Issue Size: Avg (\$)	4,815,384	5,820,616
Issue Size: Max (\$)	500,000,000	1,981,253,800
Rounds of Financing for Issuer: Max (#)	51	350
# Investors per Transaction: Max (#)	388	502

J. Data Analysis: Most Frequently Used Issue Sizes

The following list represents the 5 most frequently used issue sizes.

Table I-1: Most Frequently Used Issue Sizes

1995-1998		2001-2002	
Issue Size	# Deals	Issue Size	# Deals
150,000	257	1,500	93
200,000	61	3,000	151
250,000	51	6,000	52
300,000	68	50,000	47
500,000	84	150,000	61

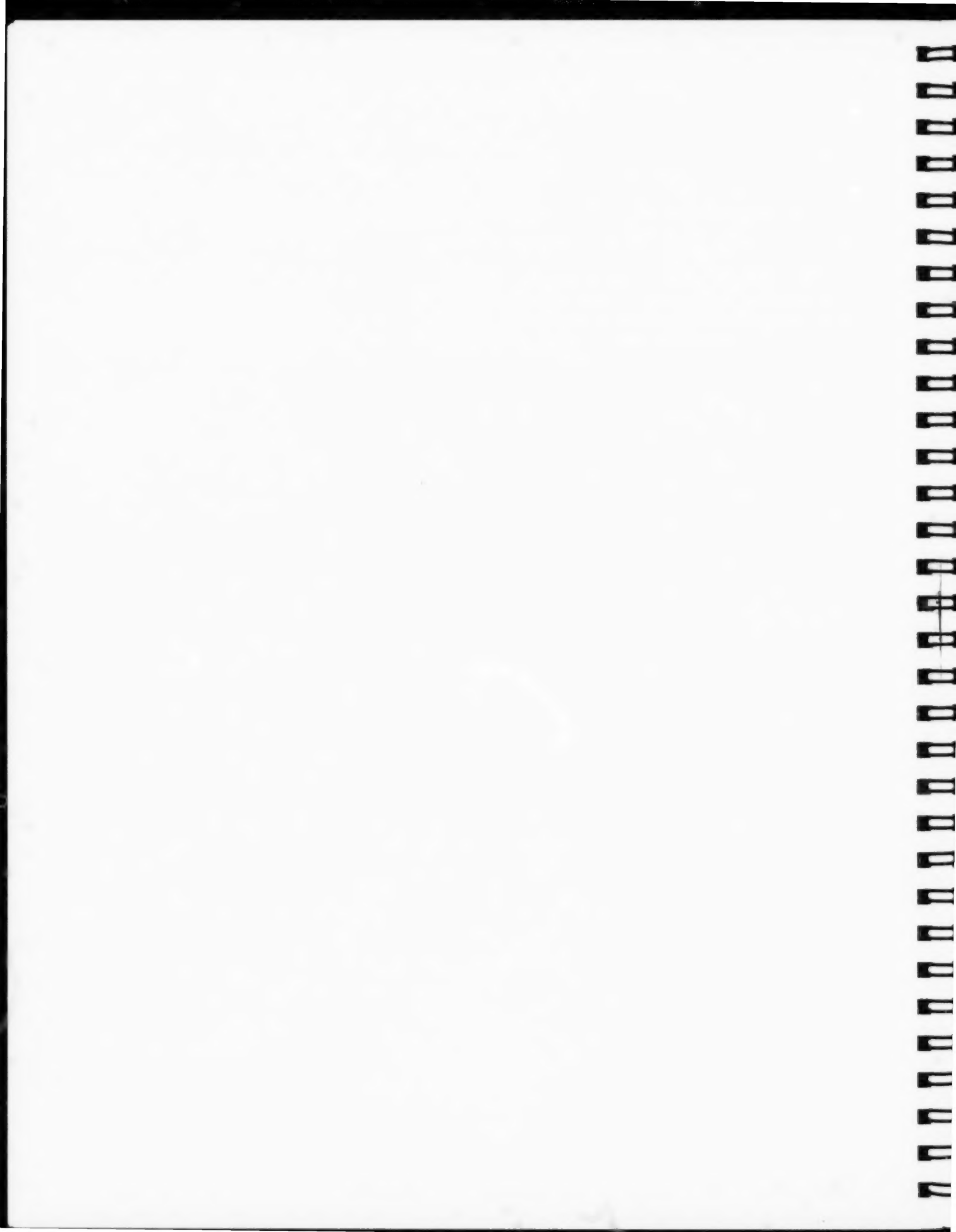
K. Data Analysis: Distribution of Size Frequency

Table K-1 describes the number of issues and the total value for a given range of issue sizes. The purpose of this representation is to provide a perspective of how the transaction values are being distributed.

Interpretation: The range "\$500,000 < 1 M" will be used for the following example. For the period 1995-1998, 604 transactions have raised over \$ 419.3M. Over the 4-year period, the annual average number of transactions was 151 and the annual average value of transactions was \$104.8M. From 2001-2002, 338 transactions have raised over \$231.7M.

Table K-1: Distribution of Size Frequency (Pre-revision vs. Post-revision)

Total Value per Issue Size	1995-1998	1995-1998 (Annual Avg.)	2001-2002
Trade Value (\$):			
0 - < \$150,000	46,558,645	11,639,661	51,305,363
\$150,000 - < \$200,000	81,703,257	20,425,814	33,703,412
\$200,000 - < \$300,000	79,381,815	19,845,454	50,432,732
\$300,000 - < \$400,000	96,048,496	24,012,124	56,545,742
\$400,000 - < \$500,000	95,936,510	23,984,128	46,539,592
\$500,000 - < \$1 M	419,333,624	104,833,406	231,736,681
\$1 M - < \$2 M	721,611,726	180,402,932	618,867,945
\$2 M < \$5 M	1,980,599,650	495,149,913	936,574,167
\$5 M < \$10 M	2,317,075,185	579,268,796	1,096,173,659
\$10 M - < \$50 M	6,851,430,189	1,712,857,547	3,900,518,492
\$50 M < \$100 M	3,690,471,538	922,617,885	3,022,646,028
\$100 M - < \$500 M	7,923,892,106	1,980,973,027	7,370,741,177
\$500 M - < \$1 B	0	0	1,695,787,082
≥ \$1 B	0	0	1,981,253,800
# Deals per Issue Size	1995-1998	1995-1998 (Annual Avg.)	2001-2002
#Transactions			
0 - < \$150,000	946	237	1415
\$150,000 - < \$200,000	511	128	205
\$200,000 - < \$300,000	331	83	213
\$300,000 - < \$400,000	287	72	165
\$400,000 - < \$500,000	216	54	105
\$500,000 - < \$1 M	604	151	338
\$1 M - < \$2 M	516	129	280
\$2 M < \$5 M	638	160	290
\$5 M < \$10 M	329	82	161
\$10 M - < \$50 M	329	82	185
\$50 M < \$100 M	48	12	43
\$100 M - < \$500 M	43	11	48
\$500 M - < \$1 B	0	0	3
≥ \$1 B	0	0	1



L. Data Analysis: Number of Investors per Transaction

The following table groups each transaction by the number of investors participating in the transaction. The data represents the total value and the total number of deals satisfying each range. The purpose of this representation is to provide a perspective of how widely distributed each transaction is.

Interpretation: The category " ≥ 100 " represents the deals that were distributed to greater than 100 investors for the given period. For the period 1995-1998, 2 deals were distributed to greater than 100 investors, with those deals raising a total of over \$4.3M. For the period 2001-2002, 8 deals were distributed to greater than 100 investors, with those deals raising a total of over \$360.4M.

Table L-1: Number of Investors per Transaction

# Investors per Deal	1995-1998	1995-1998 (Annual Avg.)	2001-2002	1995-1998	1995-1998 (Annual Avg.)	2001-2002
	Trade Value	Trade Value	Trade Value	# Deals	# Deals	# Deals
1	12,237,426,142	3,059,356,536	11,026,350,237	2,830	708	2,264
2-4	4,633,197,545	1,158,299,386	2,343,337,443	1,151	288	627
5-9	2,480,214,457	620,053,614	1,627,318,693	449	112	330
10-19	1,926,402,881	481,600,720	4,170,541,795	277	69	197
20-49	3,065,310,338	1,068,064,214	1,021,791,645	144	46	79
50-99	569,967,829	569,967,829	386,932,607	11	11	17
≥ 100	4,352,395	4,352,395	360,414,713	2	2	8

M. Data Analysis: Rounds of Financing per Issuer

The following table groups the issuers by how frequently they are issuing. The data represents the total value and the number of issuers satisfying each range. The purpose of this representation is to give a sense of how aggressively issuers have been using the prospectus-exempt market.

Interpretation: The category " ≥ 50 " represents the issuers who have issued greater than 50 times for a particular period. For the period 1995-1998, 1 issuer used the prospectus-exempt market greater than 50 times, raising a total of over \$1.8M. On an annual basis, no issuer had greater than 50 rounds of financing in one year in the pre-revision period. For the period 2001-2002, 3 issuers issued greater than 50 times, raising a total of over \$29.5M.

Table M-1: Rounds of Financing per Issuer

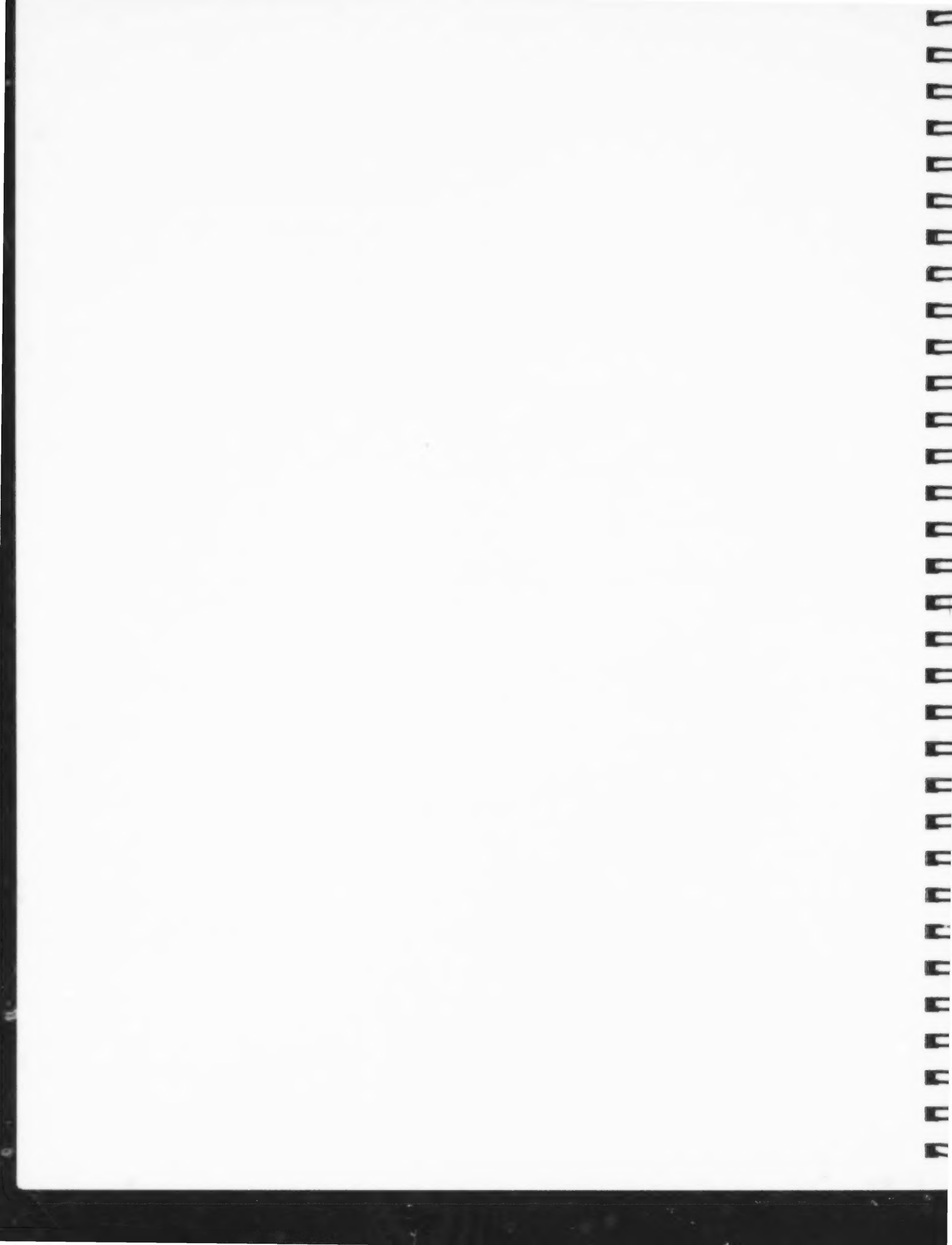
Rounds of Financing	1995-1998	1995-1998 (Annual Avg.)	2001-2002	1995-1998	1995-1998 (Annual Avg.)	2001-2002
	Trade Value	Trade Value	Trade Value	# Issuers	# Issuers	# Issuers
1	7,441,429,538	2,899,343,315	10,959,679,199	1,394	543	1,054
2-4	9,662,943,342	2,193,142,850	5,918,720,678	790	489	441
5-9	3,441,391,733	470,944,877	1,658,409,115	131	126	73
10-19	2,790,282,418	1,125,766,457	2,353,982,087	41	195	18
20-49	1,466,122,805	39,595,689	50,235,537	11	125	11
≥ 50	1,872,905	0	29,537,436	1	0	3

N. Data Sample: Total Value of Financings (\$) vs. Total Number of Financings (#)

The data sample represents the total value and total number of financings reported under Rule 45-501.

Annual	Value (\$)	Financings (#)
1995	4,303,738,285	1,137
1996	6,138,048,992	1,574
1997	9,879,754,751	1,584
1998	4,482,500,713	856
2001	4,176,440,100	415
2002	16,649,070,672	3,113
Quarterly	Value (\$)	Financings (#)
1995 Q1	985,420,893	235
1995 Q2	680,619,459	243
1995 Q3	986,696,481	313
1995 Q4	1,651,001,452	346
1996 Q1	1,093,511,289	375
1996 Q2	2,177,562,027	456
1996 Q3	1,141,081,581	360
1996 Q4	1,725,894,095	383
1997 Q1	2,333,391,292	408
1997 Q2	2,003,722,348	397
1997 Q3	2,451,757,887	356
1997 Q4	3,090,883,224	423
1998 Q1	1,226,056,950	295
1998 Q2	2,308,056,480	270
1998 Q3	374,690,164	183
1998 Q4	573,697,119	108
2001 Q4	4,176,440,100	415
2002 Q1	4,645,490,327	841
2002 Q2	5,685,803,572	1,111
2002 Q3	5,113,488,973	986

Monthly	Value (\$)	Financings (#)	Monthly	Value (\$)	Financings (#)
1995/01	97,427,591	78	1998/01	190,419,883	68
1995/02	519,691,855	75	1998/02	390,064,103	91
1995/03	368,301,447	82	1998/03	645,572,964	136
1995/04	397,399,219	61	1998/04	1,195,623,423	98
1995/05	79,161,367	62	1998/05	557,438,354	86
1995/06	204,058,873	120	1998/06	554,994,703	86
1995/07	308,068,815	94	1998/07	100,470,003	74
1995/08	344,676,919	114	1998/08	142,732,994	57
1995/09	333,950,747	105	1998/09	131,487,167	52
1995/10	850,392,451	84	1998/10	290,467,774	55
1995/11	171,441,644	88	1998/11	267,177,595	43
1995/12	629,167,357	174	1998/12	16,051,750	10
1996/01	143,533,759	88			
1996/02	291,589,792	130	2001/12	4,176,440,100	415
1996/03	658,387,738	157	2002/01	2,241,243,376	228
1996/04	632,232,581	128	2002/02	1,189,410,888	292
1996/05	921,013,074	186	2002/03	1,214,836,063	321
1996/06	624,316,372	142	2002/04	2,635,659,699	335
1996/07	325,738,133	146	2002/05	1,724,578,536	386
1996/08	423,102,572	107	2002/06	1,325,565,337	390
1996/09	392,240,876	107	2002/07	1,070,287,846	411
1996/10	339,915,110	88	2002/08	2,766,258,188	306
1996/11	761,536,076	120	2002/09	1,276,942,939	269
1996/12	624,442,909	175	2002/10	1,204,287,800	175
1997/01	420,582,479	116			
1997/02	416,811,148	126			
1997/03	1,495,997,665	166			
1997/04	628,333,829	138			
1997/05	470,187,852	119			
1997/06	905,200,667	140			
1997/07	1,158,701,864	134			
1997/08	608,303,902	96			
1997/09	684,752,121	126			
1997/10	1,021,334,557	126			
1997/11	1,059,588,900	118			
1997/12	1,009,959,767	179			



**Graph H-1: Market Conditions
(Total Value)**

